GREAVES WEST & AYRE
CHARTERED ACCOUNTANTS

SPRING 2024

NEWS

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Basis Period Reform: Will it affect your business?

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Read the full article on page 2.

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For example, suppose you are a Sole Trader who prepares your accounts annually to 30 September. For the 2022/23 tax year, your basis period for working out your tax liability was your profits/losses for the 12 months up to 30 September 2022.

HMRC is reforming the tax rules by moving from the 'current year basis' system to a new 'tax year basis' system therefore effectively breaking the link between the accounting date chosen by a business and when they are taxed on their profits. This means that unincorporated businesses will be taxed on profits arising in the tax year, rather than on their accounting year, regardless of their period of accounts. This aligns the taxation of trading income with that of untaxed non-trading income (e.g. untaxed income from property, interest or dividends).

The new tax year basis will apply from 2024/25 with a transitional year being 2023/24. It affects all unincorporated businesses who do not have 31 March / 5 April accounting year-ends. If your unincorporated business does not have a year end of 31 March or 5 April, for the 2024/25 tax year you will be required to apportion profits or losses across periods of accounts to adjust your results to the tax year basis.

Transitional year – year to 5 April 2024

The 2023/24 tax year will be a transitional year with specific tax rules. During this year, the basis period for continuing businesses will be the 12 months to the end of the accounting period ending within 2023/24 plus the period up to the end of the tax year.

For our Sole Trader, this means for 2023/24 the basis period is all of the profit for the 12 months up to 30 September 2023 ("standard part") plus $^6/_{12}$ of profits for the period of account up to 30 September 2024 ("transitional part"). This could mean significantly higher tax bills for that year, perhaps even pushing some people into a higher tax bracket.

To alleviate the tax impact of additional profits brought into account, taxpayers can deduct any overlap relief brought forward from their transition part profits, and spread any remaining 'transition profits' over up to five years. It is also possible that the business has other income sources that is taxed per the accounting period. This may include rental income or untaxed bank interest. Please note that for these sources of income, the transitional rules also apply, but there is no mechanism to spread these profits over the five year period. Once again, this may lead to increased taxable profits in the 2023/24 tax year.

Overlap relief

Overlap relief may have arisen when the business started to trade (when the current year basis meant they may have been taxed twice on the same profits) or from a past change in accounting date. If the business is old enough, it may also have transitional overlap relief available from the switch over to the current year basis in 1996/97.

Any loss arising in the transition part will be automatically set against the standard part profits, and vice versa. If a loss arises in both the transition part and standard part, these losses are combined for the purposes of calculating the overall loss for 2023/24.

Year to 5 April 2025

If we consider the above Sole Trader example again, for 2024/25 - the apportion would be $^6/_{12}$ of the profits for the period of account up to 30 September 2024 plus $^6/_{12}$ of profits for the period of account up to 30 September 2025.

This of course means that if the accounts to 30 September 2025 are not finalised, 6 months' profits/losses will have to be estimated for the submission of the 2024/25 tax return and the tax return subsequently amended once the accounts are finalised. Working out estimates and submitting a second return will cause an additional administrative burden. In addition, for some businesses, for example seasonal or farming businesses, accurate estimates will be very difficult to make.

HMRC will allow provisional figures to be corrected by amending the original return. Generally, where a provisional figure is included in a return, it should be corrected immediately once the final figure is known. However, HMRC have indicated they will amend their guidance, and allow provisional figures used because of basis period reform to be corrected at any time up to the normal amendment deadline. For example, for tax year 2024/25, a business will have until 31 January 2027 to correct a provisional figure. This should allow agents and businesses to file the amended return at the same time as preparing the following year's return.

Making Tax Digital

How will the basis period reform interact with Making Tax Digital? Making Tax Digital for Income Tax Self-Assessment (MTD for ITSA) will be introduced from April 2026 for businesses with turnover of £50,000 or more, and from April 2027 for those turning over at least £30,000. Taxpayers in the scope of MTD ITSA will have to submit quarterly updates of their income and expenses to HMRC. These quarterly updates will align with the tax year, and not the accounting period of the business.

The introduction of the tax year basis from April 2024 may make alignment with MTD for ITSA quarters easier. However, it should be remembered that, if the business does not have a 31 March or 5 April year-end, then under the tax year basis it is not the transactions actually taking place in the tax year which are subject to tax, but rather the apportioned profits of the relevant accounting periods (see above).

In summary, if your business is unincorporated and your accounting date is not aligned with the end of the tax year, basis period reforms will affect you and could affect your cash flow. You may wish to discuss changing your accounting year-end to 31 March or 5 April to reduce the administrative burden and give more accurate figures for tax purposes. The prospect of higher tax bills in January 2025 might also prompt tax planning, such as making pension contributions. Any contributions would have to be made in the current tax year (i.e. before 6 April 2024) when the taxable profits will not have been computed.

We appreciate that this is not the easiest of subjects to explain. We will continue to review HMRC guidance and provide updates with proactive, and hopefully easy to understand advice, where needed. In the meantime, if you would like to discuss or clarify any of the issues raised, please do not hesitate to get in touch.

Tax Planning

Friday 5 April 2024 sees the end of the current tax year. Following the Chancellor's continued plans to freeze, and in some cases, reduce tax-free allowances, it's more important than ever to make the most of some timely tax planning.

Below is a list of the main allowances and reliefs that we recommend you consider.

ISAs

Returns from an ISA are tax free and in the current tax year individuals can invest up to £20,000 in either a Cash ISA, a Stocks & Shares ISA or an Innovative Finance ISA, or a mixture of either.

As part of your main allowance, a Lifetime ISA (LISA) is available to anyone between 18 and 40 saving up to £4,000 towards a home or retirement until age 50; these attract a 25% Government addition.

You can invest up to £9,000 in a Junior ISA for anyone under 18 living in the UK.

Remember ISA allowances cannot be carried forward past 5 April, so use it or lose it!

Pensions

Most people get income tax relief on pension contributions up to the annual allowance. For 2023/24 you can generally contribute £60,000 gross or 100% of your earnings or £3,600 (whichever is lower). As well as receiving a 20% top-up from the Government on any net personal contributions you make, you may also be able to reduce the amount of income tax you pay by extending your basic rate band and/or reinstating your personal allowance and you may be able to reduce the claw back Child Benefit payments.

Business owners can extract profits as a pension contribution, saving on tax and National Insurance liabilities.

Any unused allowances from the past three years may be carried forward.

Use Your Annual Tax Allowances

From April 2023 the capital gains tax (CGT) allowance was reduced to £6,000. This figure will be halved again to £3,000 from April 2024. If you have plans to sell or gift any assets soon, you should consider timing the 'disposal' of your assets before the CGT allowance is cut. Remember that assets can be transferred between married or civil partners 'tax year', so it makes sense to maximise the use of each partner's individual allowance before these are reduced.

Marriage Allowance allows a basic rate taxpayer to transfer £1,260 of their spouse's personal allowance to himself or herself, provided the spouse earns less than £12,570. This potentially reduces your tax bill by up to £252 if you are a basic rate taxpayer.

If you run your own business through a limited company, the first £1,000 of dividends that you draw is tax free, irrespective of other income. This is reducing to £500 from 6 April 2024.

The personal savings allowance is £1,000 of tax free interest for basic rate taxpayers, and £500 for higher rate taxpayers. There is no allowance for those paying tax at 45%.

Two further £1,000 tax free allowances are available: one for property and the other for miscellaneous trading income.

Inheritance Tax (IHT)

An individual can make gifts of up to £3,000 annually. Also, multiple smaller gifts of £250 or regular gifts out of their income each tax year – all exempt from IHT.

You can also make one off gifts on marriage or civil partnership; the amount exempt depends on your relationship to the couple. Larger gifts over and above these exemptions can also be made, but the giver needs to live for seven years before they are fully free of IHT.

Gift Aid Donations

If you are a UK taxpayer and make a charitable donation via Gift Aid, the charity can claim an extra 25p for every £1 you give. As Gift Aid assumes that the money has been taxed at the standard rate, higher or additional rate taxpayers are eligible to receive a further 20% or 25% (22% or 27% if you are a Scottish resident) of the grossed-up donation as a reduction in tax liability. So, remember to record any Gift Aid donations on your tax return.

Other Tax Efficient Investments

There are other investment options that are time limited and have tax incentives such as Enterprise Investment Schemes (EIS), Venture Capital Trusts (VCT) and Seed Enterprise Investment Schemes (SEIS).

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You can find more details on each of these opportunities on our website. As 5 April approaches we would advise everyone to consider all the tax saving and investment opportunities available to them. With growing pressure on the Government to increase tax revenues to combat ongoing economic challenges, there's a great deal of uncertainty around how wealth will be taxed in the future. This year more than ever it is a case of act now and use it or lose it!

Disclaimer
Please be aware that your capital will be at risk when you invest, and that you may get back less than you invested. There is no guarantee of how future wealth will be taxed and everyone's situation is unique. This article does not constitute financial advice so before acting upon it, the reader should always take the appropriate financial advice.

Farewell...

This year sees the departure of two of our longest standing and most well respected Partners, Alan Patterson, and Ewan Millar. Ewan and Alan retire on 31 March this year, with Alan remaining as a consultant until 31 July.

We took some time to chat both of them about their long careers with Greaves West & Ayre.

"Life at GWA has been an experience."

Alan Patterson is our longest serving Partner who joined GWA in 1974. Alan's experience as a General Accountancy Practitioner has been invaluable to the firm. His breadth of knowledge has covered many areas including Accounting, Auditing, Personal Tax, Trusts and Estates and Property Ownership. Alan acts as a trustee for many families holding land, property, and significant investment assets. He is involved in all aspects of Tax Mitigation including Inheritance Tax Planning and Business Structures.

Following 50 years at GWA with 40 of those years as a Partner, Alan is now looking forward to the future. He said, "Now is the right time to move into the next phase of my life. I am looking forward to spending time at home, relaxing with my family and friends and to spending more time enjoying my interests in travel and sports".

Speaking to Alan, he reflected on the changes within Greaves West & Ayre over the past 50 years. From the number of staff in those early days and the various office locations through to the interesting and rewarding changes in modern office technology. In his own modest way, he simply says, "life at GWA has been an experience".

"I am safe in the knowledge that I will be leaving my clients and GWA in capable hands, I wish them all the best for the future."

"It has been a pleasure and a privilege to act for my clients and I thank them very much for their support over the years."

Ewan Millar trained with a firm in Dundee and, after qualifying had a spell in the Tax Department in one of the "Big 4". He then moved to N C Campbell & Co CA in Haddington where he was appointed as a Partner in 1986. Ewan remained a Partner in the firm when N C Campbell & Co merged with GWA in 2016.

Like all of Greaves West & Ayre's Partners Ewan deals with a wide variety of clients. Being the son of a farmer and having been born and brought up on a farm, he takes a special interest in advising farming clients and 'agri' businesses.

Ewan commenting on his retirement said, "I have been very fortunate in that throughout my 46 years in the accountancy profession, I have thoroughly enjoyed my work, especially my time in Haddington. It has been a pleasure and a privilege to act for my clients and I thank them very much for their support over the years. I have very much enjoyed the personal contact with them and being able to provide solutions and support as best I can.

Retirement will be a change! My wife Catherine and I plan to do a bit of travelling; I am a member at Dunbar Golf Club, and am looking forward to perhaps a game once or twice a week rather than once every couple of months, as it appears to have been up until now! I enjoy my garden and look forward to spending the warmer days at a more relaxed pace maintaining that.

Last, but by no means least, I am also looking forward to spending more time with my grandchildren – three so far with another one on the way!

It is extremely reassuring for me to know that the capable and talented Team behind me at GWA will continue to support my clients and the Partners who are taking over as principal. I am particularly proud of the fact that one of those Partners is my son Stuart, thereby continuing the family connection.

I would also like to make special mention to the members of the Haddington Team who were with me on the journey through the merger with GWA. Their loyal and unwavering support through a period of considerable change is something I will always be grateful for, and I thank them very much for that support."

I wish all my clients and all at GWA, continued success and all the very best for the future.

Everyone across Greaves West & Ayre and our Three Counties offices would like to thank you both for your service over the years, and we all extend our very best wishes to you both for a long, healthy, and happy retirement.

Cash Basis

Changes applying from April 2024

The cash basis is a simpler way of preparing accounts, which takes account only of cash received and cash paid out. Unlike the traditional accruals basis there is no need to match income and expenses to the period to which they relate, or take account of debtors and creditors.

Eligibility:

Currently, Sole Traders and Partnerships (with all individual partners) can elect to use the cash basis if their total business receipts for the tax year do not exceed £150,000 (£300,000 for Universal Credit recipients). The limits are proportionally reduced for basis periods less than 12 months, but not increased for longer basis periods.

From April 2024, the turnover threshold of £150,000 will be removed entirely, so even the higher earning self-employed people will be able to use the cash basis.

Ineligibility:

Limited Liability Partnerships and Companies are not eligible to use the cash basis.

There are also some specific types of businesses that cannot use the scheme:

- Lloyd's underwriters
- farming businesses with a current herd basis election
- farming and creative businesses with a section 221 ITTOIA profit averaging election
- businesses that have claimed business premises renovation allowance
- businesses that carry on a mineral extraction trade
- businesses that have claimed research and development allowance
- dealers in securities
- relief for mineral royalties
- lease premiums
- ministers of religion
- pool betting duty
- intermediaries treated as making employment payments
- managed service companies
- waste disposal
- cemeteries and crematoria

Election and Duration:

Currently an election has to be made to use the cash basis, however, from April 2024; the cash basis will be the default method of calculating trading profits. An election will no longer be required to use the cash basis, and businesses will calculate their trading profits using the cash basis unless they make an election to use the accruals basis.

A new election will be introduced to allow businesses to opt-out of the cash basis and switch to accruals. This election will have effect from the tax year in which it is made onwards but can be withdrawn to allow the business to move back to the cash basis. This legislation will also stop the cash basis default applying to certain types of businesses that are normally excluded from using the cash basis.

Capital Expenditure:

Capital expenditure is generally allowable as a deduction under the cash basis, except for certain capital items such as acquiring or disposing of a business, education and training, acquiring non-depreciating assets, acquiring cars, and acquiring land. Cars continue to be eligible for capital allowances.

Capital Allowances:

Under the cash basis accounting method, Capital Allowances cannot be claimed for expenditure on plant and machinery used for trade purposes. Instead, the actual cost of qualifying plant and machinery is deducted when it is paid. However, cars are an exception to this rule. Despite the cash basis, cars remain eligible for Capital Allowances, meaning their cost can still be claimed as a deduction.

Limitations:

1. Pre 2024, businesses with significant capital needs may have exceeded the £500 limit on allowable interest. However, from April 2024 this restriction is removed allowing the deduction of any amount of interest 'as long as it is incurred wholly and exclusively for the purposes of the trade'.
2. Capital Allowance adjustments: As per above (Capital Allowances), businesses may still need to make adjustments for capital expenditure on cars if they choose not to use the simplified expenses mileage rate.
3. Lack of choice in Capital Allowances claims: Cash accounting does not provide the option to choose the amount of Capital Allowances claimed. This limitation may negatively impact individuals who make modest profits covered by their personal allowance. Having the ability to choose the amount of Capital Allowances claimed in more profitable years may be preferable.
4. An adjustment is required for a capital asset used for business and private purposes where the proportions of use change. The reduction in business use is treated as a sale of part of the asset at current market value.
5. From April 2024, losses generated can be used in the same way as accruals basis losses. This means that cash basis losses will be able to be set sideways against general income of the same period or carried back to earlier years (including opening year loss relief), subject to the same general loss relief rules as accruals losses.
6. Farmers' averaging relief and herd basis rules do not apply to farmers and market gardeners who work out their profits using the cash basis.

Events

We held two successful rural seminars in late Autumn 2023, one in Haddington, East Lothian and one at Howick Hall, Northumberland.

We collaborated with Galbraith, Turcan Connell, Womble Bond Dickinson and GSC Grays covering topics such as; making provisions for succession planning outwith the family business, when families fall out – pitfalls for agricultural clients and a focus on subsidies.

In February, we hosted the North East Agent for The Bank of England, Mauricio Armellini at a business update. Read more about his update on page 10.

Three Counties announces new Director promotion

We are pleased to announce that Richard Kirkham has become a Director of Three Counties Ltd and GWA Asset Management Ltd on 6 February 2024.

Richard began his career with GWA and Three Counties Ltd in July 2021 in the Compliance Department. He splits his time between our sister organisations Greaves West & Ayre and GWA Asset Management Ltd. He is on hand to offer both companies expert compliance advice with his wealth of knowledge.

Richard is a Chartered Fellow of the CISI and holds the CII Diploma in Regulated Financial Planning and the CISI Diploma in Investment Compliance. Richard has 25 years of experience in the investment industry, the majority of which he spent working in London and New York.

Away from work he enjoys travelling to much sunnier climes, cooking and horse racing.

Commenting on his appointment Richard said, "I am delighted to have been appointed as a Director of both Three Counties Ltd and GWA Asset Management Ltd. We have a very dedicated and passionate Team and with the continued support from our clients the businesses will continue to go from strength to strength."

Corryn Wild, Director at Three Counties Ltd, said "Richard has made a valuable contribution to our businesses and demonstrated Three Counties Ltd's core values. Our Team is fundamental to our success, and we see Richard's appointment as a way of further strengthening our Management Team and progress our business.

I am sure that Richard will continue to excel in supporting the Three Counties Ltd Team with our ongoing compliance needs. We are delighted to welcome him as a Director."

three counties
BEYOND WEALTH MANAGEMENT

Bank of England - Business Update

In February, we welcomed The Bank of England Agent for North East England, Mauricio Armellini to our Berwick upon Tweed Office. He offered an insight into the Bank's UK and global economy.

Mauricio joined invited clients, Partners and a selection of GWA staff for a business update. He covered the key points from the Monetary Policy Report including the impact of the policy and the outlook for growth in 2024.

Richard Ayre, Partner said, 'It's always great to have Mauricio visit us and share his insight and expertise on both the UK and Global economy. We thank Mauricio for spending time with us'.

A further webinar event is scheduled for May with The Bank of England Agent for Scotland, Iain Duff. E-invites will be sent out closer to the time.

Community News

As we look forward to Spring and the lighter, brighter days ahead, we round up what has been a busy few months as we came to the end of 2023 and welcomed the New Year. Our support of local causes, initiatives and hosting of our own events has been as busy as ever…

In the run up to Christmas all three of our offices were drop off points for the **Mission Christmas Cash for Kids** campaign. Thank you to all our clients and staff who dropped off gifts and supported this great initiative.

Mission Christmas Cash for Kids campaign

In January 2024 we welcomed **Amanda Simmister** from the **Great North Air Ambulance Service (GNAAS)** to our Berwick upon Tweed Office.

Amanda was presented with donations by GWA staff. We raised £361.25 from our annual **Christmas Jumper Day** on 15 December 2023. The total amount of ongoing funds raised to date, is an impressive £3,500.00.

Some of our staff joined Amanda for a bracing walk around the town's Elizabethan Walls as part of the GNAAS Walk the Wall 2024 Challenge.

Well done to everyone who has played a part in raising these much-needed funds over the years!

L-R: Andrew Blair, Michael Beveridge & David Black from GWA and Amanda Simmister from GNAAS

In February we supported **Berwick Races - Point to Point**. We have recently renewed our sponsorship of both **Minto Golf Club** and **Magdalene Fields Golf Club**.

Staff News

As always, we are delighted to welcome new members of staff to our growing Team. We have recently welcomed several new Apprentices to our Berwick Office – **Emma Scott**, **Sam Rogers**, **Tyla Spouse** & **Ely Benz-Toreno**.

Catriona Robertson returned to our Tax Team in December 2023 and **Callum Ellsbury** joined as Admin within our Wealth Management Team in January.

Staff Community Outreach Initiative

Through our own **Staff Community Outreach Initiative**, we have supported:

- Berwick Scooter Boys' Ride of Remembrance [British Legion], nominated by **Angela Bruce**
- Chirnside Junior Football Club, nominated by **David Renton**
- Tweedmouth Prior Park First School, nominated by **Alan Potts**
- Eyemouth Food Bank, nominated by **Becky Wilson**
- Glendale Curling Club, nominated by **Lindsay Dalgliesh**

Chirnside Junior Football Club

Dates for the Diary

MAY 14 2024

The Bank of England Webinar – Scottish Update with Iain Duff

JUNE 29 2024

Haddington Show

JULY 26 2024 – JULY 27 2024

Border Union Agricultural Show, Kelso

We look forward to catching up with many of you at the Summer Shows!

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